

U

O

W

In our interest:
Australia's contribution
to extractive industries
accounting

Associate Professor Corinne Cortese

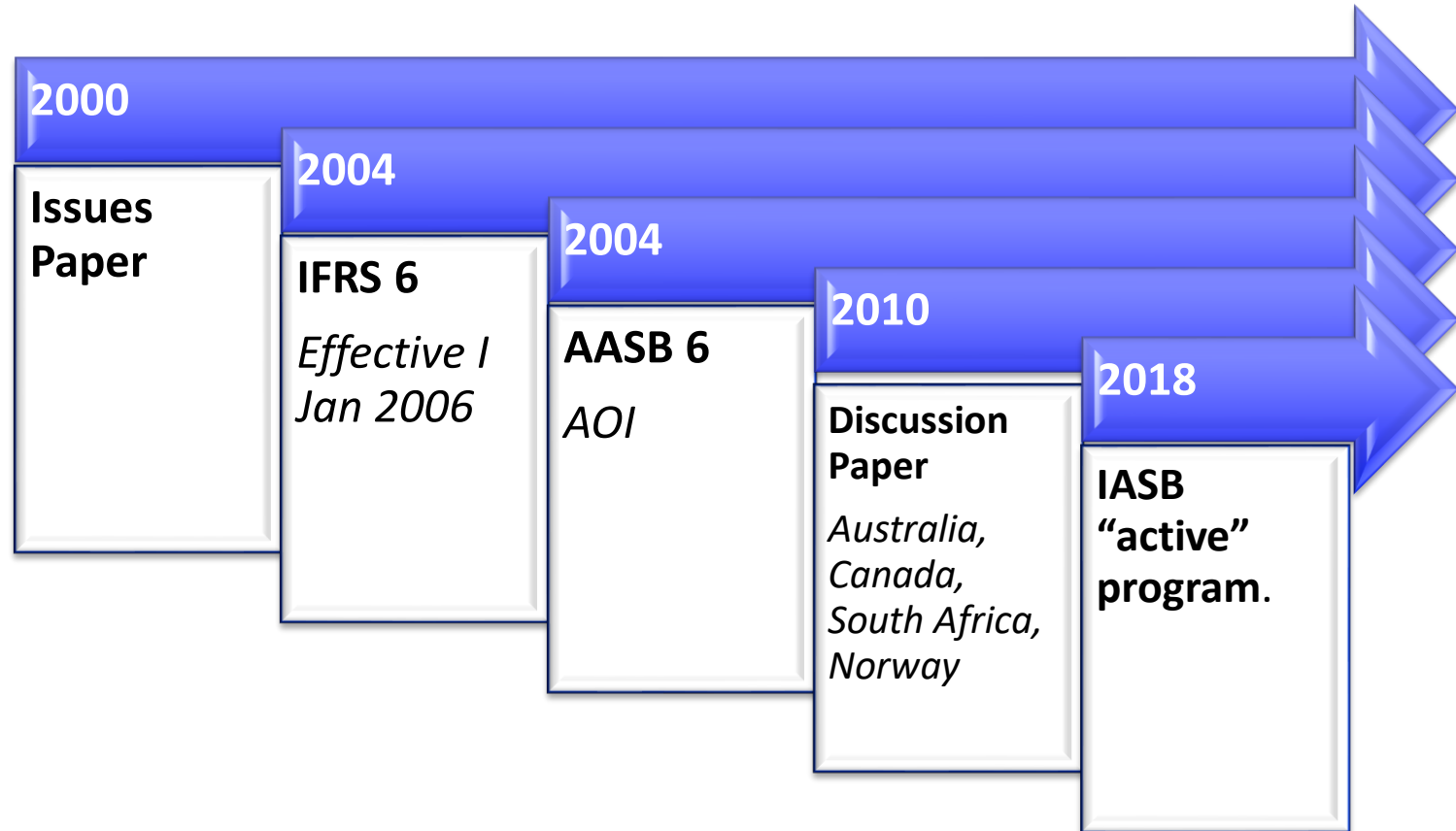
Professor Millicent Chang

Associate Professor Lee Moerman



UNIVERSITY
OF WOLLONGONG
AUSTRALIA

Exploration for and Evaluation of Mineral Resources



An Australian standard & Area of Interest (AOI)

there's no doubt that the Australian version of the standard, AASB 6, is far superior to the IFRS one (Interviewee 6).

The move to IFRS was seen as a positive move to standardise practice in the industry, resulting in less cowboys out there (Interviewee 5)...

Our starting point is the area of interest. I think that makes sense, and I think it's good that we actually have had that added in, because it gives that clarity that the international version doesn't (Interviewee 8).

IFRS Questions for the AASB

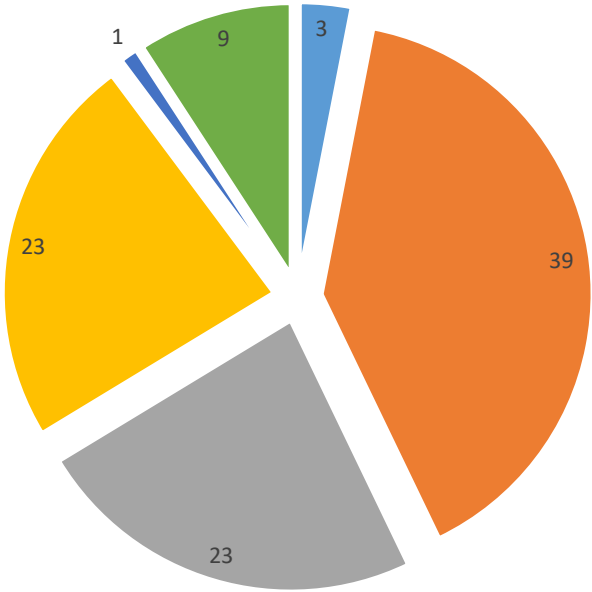


Our Project



Phase 1 – 98 ASX Companies by sector

Industry sector breakdown

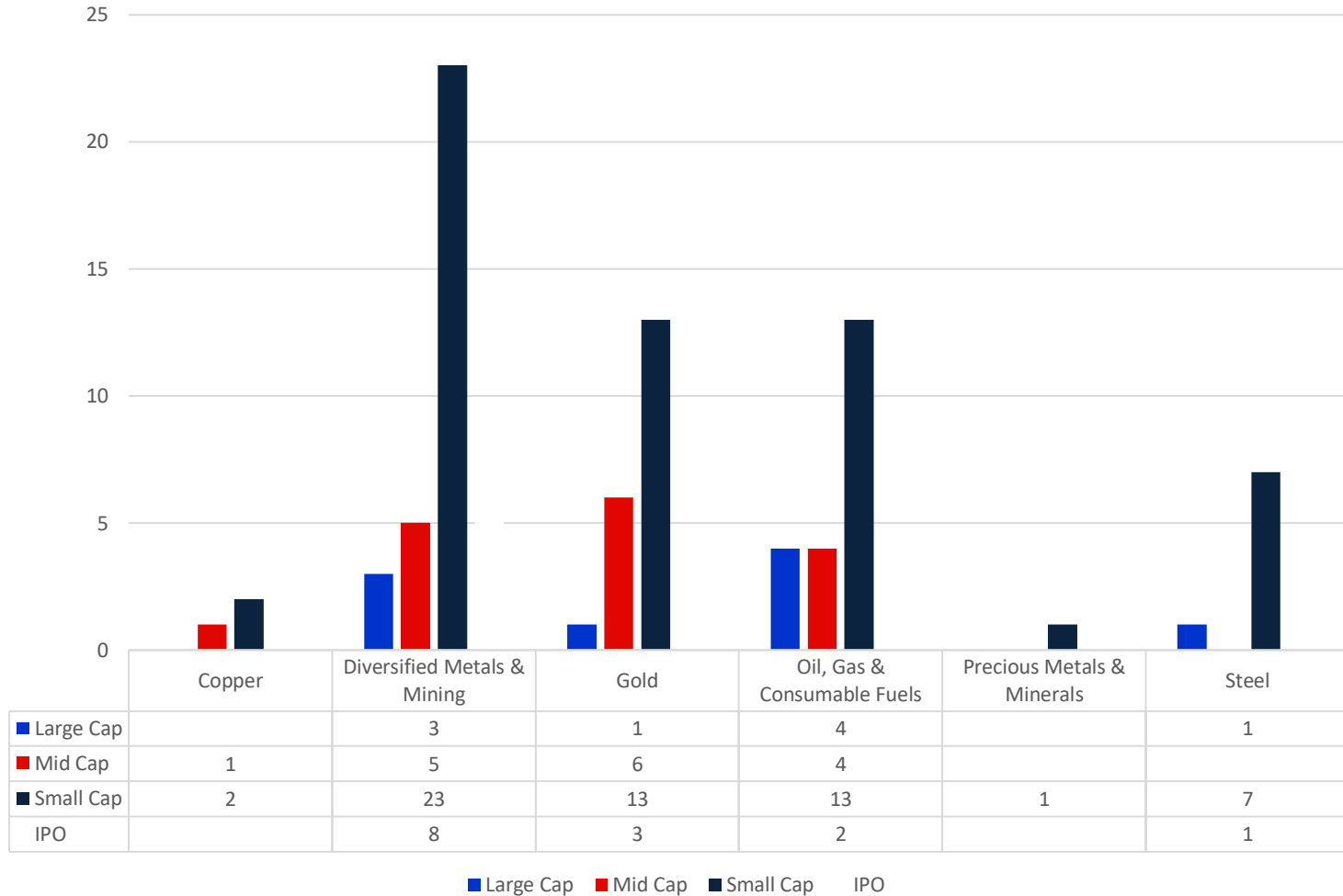


- Copper
- Diversified Metals & Mining
- Gold
- Oil, Gas & Consumable Fuels
- Precious Metals & Minerals
- Steel

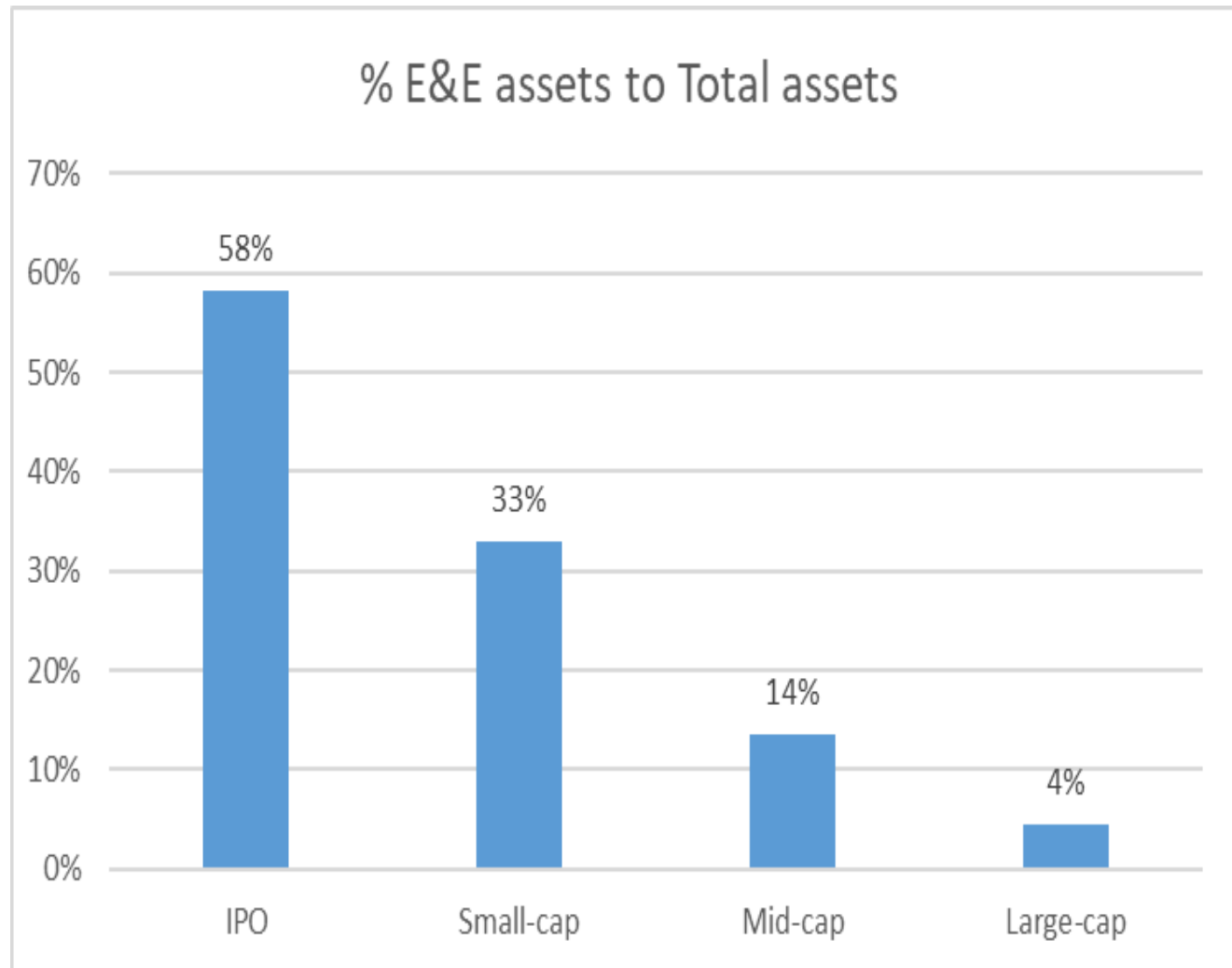


Phase 1 – 98 companies by size

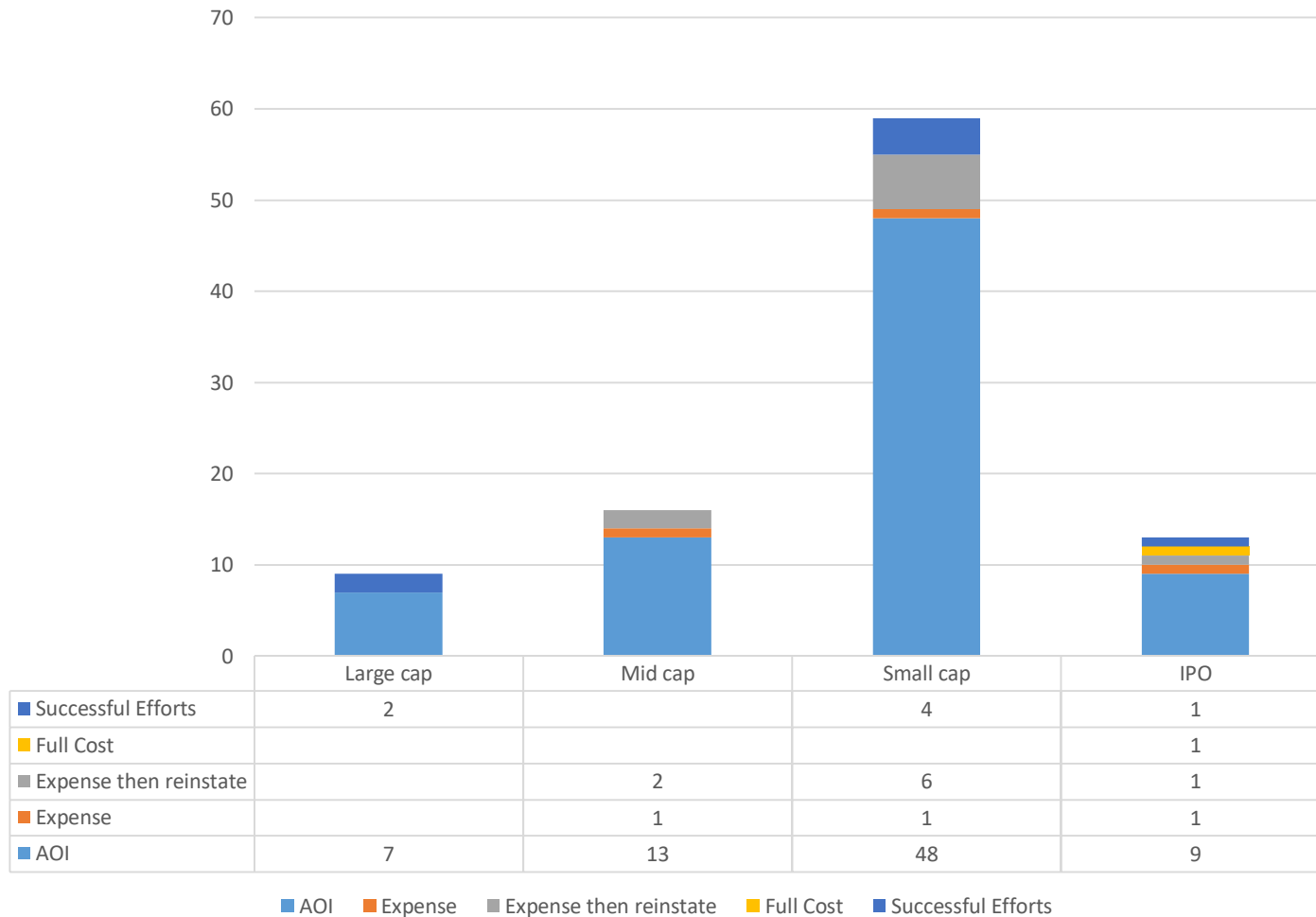
Industry subgroup by Market capitalisation



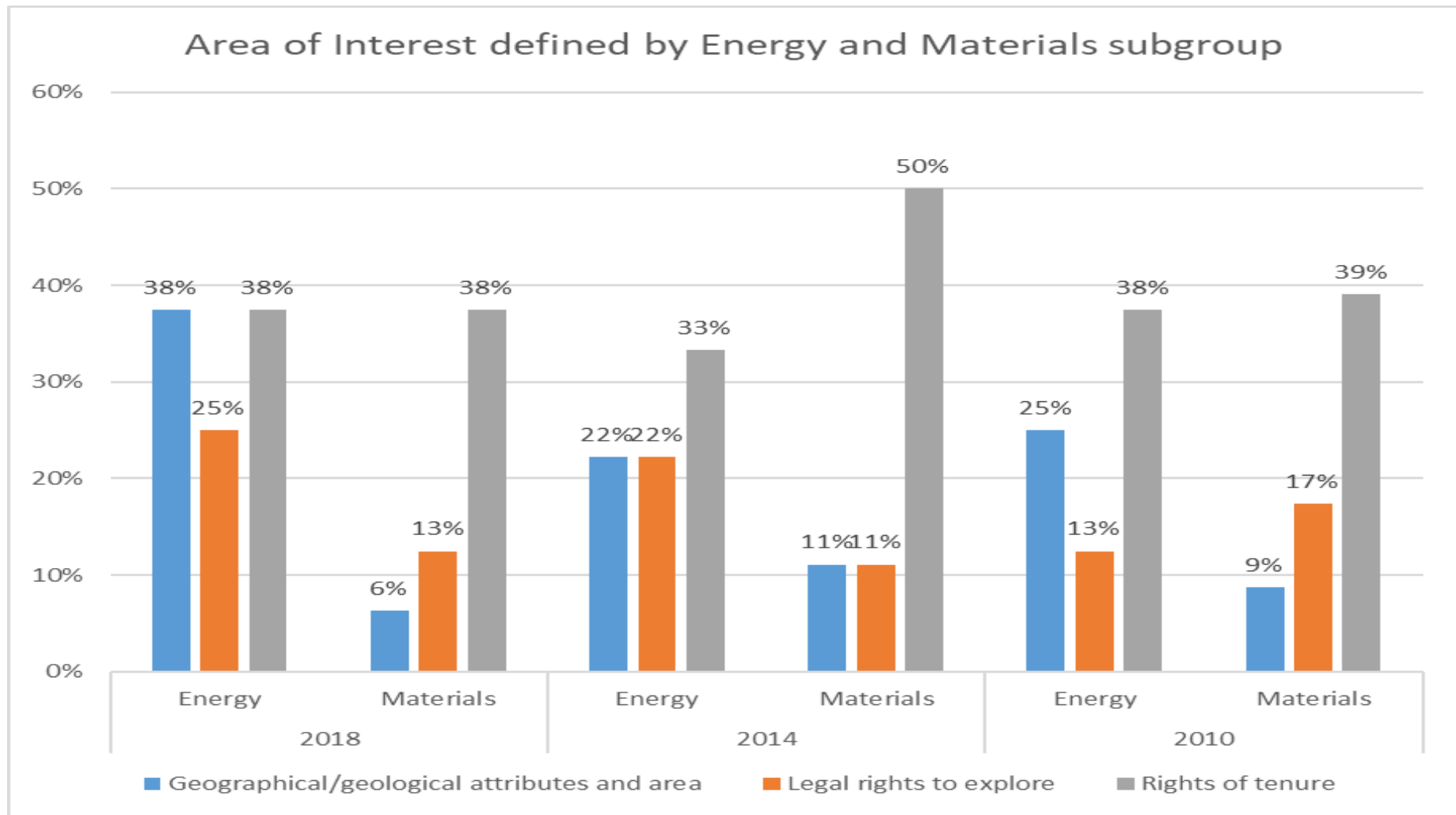
State of Play - % E&E Assets



State of Play – Accounting Method



How is AOI defined over time?



Phase 3 – Interviews

- 12 semi-structured interviews
- Preparers, regulators, auditors
- All segments of the extractive industries
- Private companies, listed companies
- Varying sizes – juniors to MRCs
- Varying stages of life cycle

they came up with a solution where companies were essentially able to continue on with their accounting policy (Interviewee 11).

Lack of Guidance

The application guidance...the disclosure guidance in the standard...that's where it needs to be enhanced, just to avoid potential inconsistency (Interviewee 5).

we have to borrow [from other standards] because [it] is not spelled out in AASB 6 (Interviewee 8).

In terms of IFRS 6...that is an area where there is still lack of clarity as to what the accounting should be (Interviewee 3).



Flexibility – a trade-off with consistency

I can keep this expenditure on the books because in some way it supports my interpretation of this area (Interviewee 11).

[people] just exercise their judgement...I think the standard supports them one way or another (Interviewee 9).

Having room to move gives you room (Interviewee 12)

having flexibility is good, but there are cases where we struggle to get guidance when we need it...whether that's from the accounting firms or speaking to peers in the industry, we kind of look around to others for an answer (Interviewee 12).

Capitalise vs. Expense

If you're a large company, you expect to be incurring these costs on an annual basis, whereas if you're a smaller entity and you've only got the one mine, it's probably more of an issue in terms of that lumpiness (Interviewee 10).

even the discovery of non-commercial hydrocarbon from a particular well, you still get data... you need to know that for your development plan. So that actually is valuable regardless of whether the development is successful (Interviewee 12).

impairments typically sold to investors as Oh, look, it's a non-cash item, blah blah blah...which has made investors sceptical about the carrying value of intangibles.

Impairment

The lack of guidance “really, really comes into focus when you’re having these impairment discussions and when things are on the edge...there is a bit of a difference in that we’re dealing with something a little more than intellectual property,

the JORC Code does impact a number of areas...they [resources and reserves] are very important when looking at impairments for cash generating units, and also when setting depreciation lives and asset lives (Interviewee 10).

JORC and PRMS

the JORC Code is key to determining what the production profile and useful life of the assets are (Interviewee 10).

be compliant with PRMS, we release a reserve and resource statement in our annual report...[this is] critical to understanding company value. The numbers drive a lot of the accounting achievement as well, in terms of depreciation etc (Interviewee 12).

Is there enough information for decision-makers?

it could be useful if the standard contemplates areas beyond just the E&E or the asset-accounting side... [if it] looks at revenue streams (Interviewee 12).

people are doing back-of-the-envelope evaluation of exploration intangibles, then that kind of says that we may not be meeting their needs appropriately (Interviewee 9).

Risk Profile & Governance

[the competent person] form a critical part of the calculation of some of the financial metrics that get published...I think it is fair to say that it [the JORC statement] carries the gravitas that an audit comment would carry (Interviewee 9).

when we do JORC, the competent person actually comes to the board meeting, and they make a presentation...the board has the opportunity to quiz and push and pull



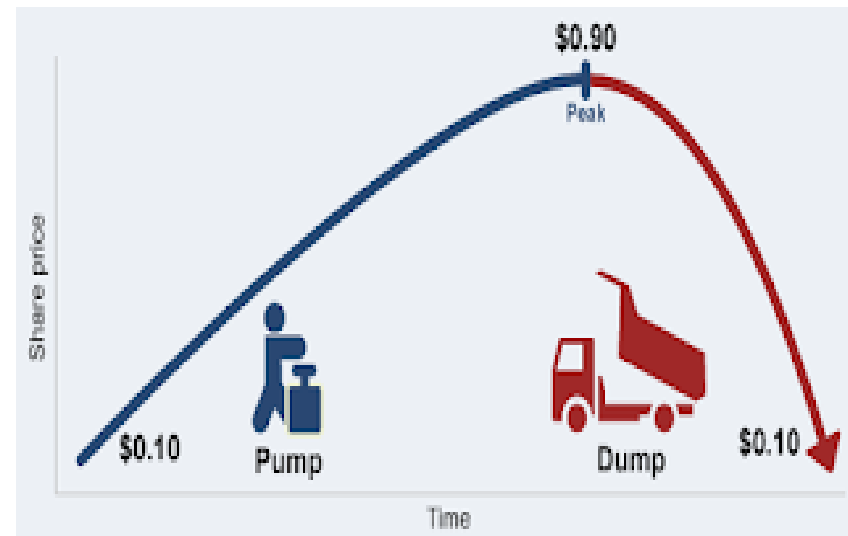
Findings – IFRS questions



Do we need a standard for E&E

YES,

- Flexibility to accommodate industry and business model.
- Hybrid nature of tangible & intangible.
- Risk profile and uncertainty of E&E
- Investor base at different stages
- **BUT.....**



- **Further guidance**
 - Expense vs capitalisation criteria
 - Impairment
 - Joint arrangements and new financing arrangements especially in hardening credit market
 - New forms of mining (e.g.CSG)
 - Definition and scope of AOI

- **Broaden scope**
 - Revenue streams
 - Closure obligations
 - Impairment
 - Incorporation of established internationally-recognised guidance or models used in classification and valuation activities



Thanks for your attention

In our interest: Australia's contribution to extractive industries accounting

Associate Professor Corinne Cortese
corinne_cortese@uow.edu.au

Professor Millicent Chang
mchang@uow.edu.au

Associate Professor Lee Moerman
leem@uow.edu.au